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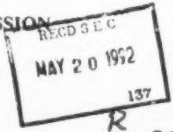
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



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92-2256

FORM 10-Q

(Mark One)

[√] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

PROCESSED BY
MAY 22 1992

For the transition period from _____ to _____

Commission File Number 2-84417

Noise Cancellation Technologies, Inc
(Exact name of registrant as specified in its

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Delaware	59-2501025
(State or other jurisdiction of incorporation or organization)	(I R S Employer Identification No.)
1015 West Nursery Road, Linthicum, MD	21090
(Address of principal executive offices)	(Zip Code)

(410) 636-8700
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

√ Yes ___ No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court ___ Yes ___ No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date

58,345,887 shares outstanding as of May 15, 1992

PART I - FINANCIAL INFORMATION

BEST COPY
AVAILABLE

NOISE CANCELLATION TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	1992	1991
REVENUES:		
Sales	$11,576	$84,943
Engineering and development income	936,152	1,076,809
License fees		1,000,000
Total Revenues	947,728	2,161,752
COSTS AND EXPENSES:		
Costs of sales	7,729	40,761
Costs of engineering and development services	669,657	752,603
Selling, general and administrative	905,222	668,182
Research and development	738,032	331,009
Total Costs and Expenses	2,320,640	1,792,555
BALANCE	(1,372,912)	369,197
OTHER EXPENSES (Income):		
Settlement agreement		203,965
Interest expense	9,913	11,604
Interest (income)	(27,922)	(2,662)
Total other expenses (income)	(18,009)	212,907
INCOME (LOSS) BEFORE INCOME TAXES	(1,354,903)	156,290
INCOME TAX EXPENSE		124,400
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(1,354,903)	31,890
EXTRAORDINARY ITEM		
Net operating loss utilization		17,850
NET INCOME (LOSS)	($1,354,903)	$49,740
Weighted average number of common shares outstanding	57,803,659	49,845,693
NET (LOSS) PER SHARE	($.02)	$-

See accompanying notes to financial statements

NOISE CANCELLATION TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 1992 (Unaudited)	December 31 1991
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 330,524	$ 766,840
Short-term investments (at cost which approximates market)	1,208,000	1,200,000
Accounts receivable (including unbilled receivables of $41,382 for 1992 and $98,991 for 1991	274,595	614,313
Current maturities of long-term license fees receivable	390,000	525,000
Inventories, (substantially parts and work in process)	295,451	184,920
Other current assets	185,539	134,530
Total current assets	2,684,109	3,425,603
Long-term license fee receivable - less current maturities	280,000	340,000
Machinery and equipment, at cost, less accumulated depreciation of $557,555 and $505,945 for 1992 and 1991, respectively	783,422	683,209
Patent rights, less accumulated amortization of $340,369 and $316,133 for 1992 and 1991, respectively	875,768	853,753
Other assets	188,128	181,489
Total	$ 4,811,427	$ 5,484,054
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable-officers/stockholders	$ 450,000	$ 450,000
Current maturities of long-term debt	16,443	17,671
Accounts payable	636,334	647,041
Accrued expenses	170,270	185,909
Accrued payroll	155,499	55,063
Taxes payable (principally payroll taxes)	106,771	98,529
Total current liabilities	1,535,317	1,454,213
Long-term debt-less current maturities		3,070
Commitments and other matters		
Stockholders' equity:		
Preferred stock, $.10 par value, 10,000,000 shares authorized		
Common stock, $.01 par value, 75,000,000 shares authorized; issued 58,490,442shares in 1992 and 57,684,132 shares in 1991	584,904	576,841
Additional paid-in-capital	18,847,351	17,918,947
(Deficit)	(15,419,687)	(14,064,784)
Foreign currency translation adjustment	17,079	(11,027)
Stock subscription receivable	(122,472)	(122,472)
Deferred expenses paid with common stock	(571,065)	(210,734)
	3,336,110	4,086,771
Less-cost of common shares held as treasury stock (276,065 shares)	(60,000)	(60,000)
Total stockholders' equity	3,276,110	4,026,771
Total	$ 4,811,427	$ 5,484,054

See accompanying notes to financial statements

NOISE CANCELLATION TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Cash flows from operating activities		
Net income (loss)	($1,354,903)	$49,740
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Depreciation and amortization	85,601	62,613
Common stock issued as consideration for:		
Rent	165,210	
Operating expenses	35,308	
Compensation		30,500
Settlement agreements		203,965
Effect of changes in exchange rates	32,658	25,997
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	336,813	(102,270)
(Increase)decrease in license fees receivable	195,000	(900,000)
(Increase) in inventories	(110,531)	(8,410)
(Increase) in other assets	(136,572)	(35,722)
Increase (decrease) in accounts payable	(1,166)	172,575
Increase in accrued expenses	4,713	179,239
Increase in other liabilities	117,744	181,321
Net cash (used in) operating activities	(630,127)	(140,449)
Cash flows from investing activities:		
Acquisition of equipment	(157,809)	(40,511)
Purchase of short-term investments	(100,000)	
Proceeds from disposition of short-term investments	92,000	
Net cash (used in) investing activities	(165,809)	(40,511)
Cash flows from financing activities:		
Proceeds from sale of common stock and exercise of stock purchase warrants and stock options	363,918	57,104
Repayment of obligations in connection with patent rights	(4,298)	(3,999)
Net cash provided by financing activities	359,620	53,105
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(436,316)	(127,855)
Cash and cash equivalents-beginning of period	766,840	330,103
CASH AND CASH EQUIVALENTS - END OF PERIOD	$330,524	$202,248
Supplemental disclosure of cash flows information:		
Cash paid during the period for interest	$6,778	$14,059

See accompanying notes to financial statements

NOISE CANCELLATION TECHNOLOGIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 1992 are not necessarily indicative of the results that may be expected for the year ending December 31, 1992. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1991. The condensed Consolidated Balance Sheet at December 31, 1991 was condensed from the audited Consolidated Balance Sheet in the 1991 Annual Report on Form 10-K.

2. PATENT RIGHTS

In 1992, the Company acquired a patent covering speech filtering to be used in headset products in exchange for 10,000 shares of the Company's common stock.

3. STOCK OPTIONS AND WARRANTS

The Company's 1987 Stock Option Plan (the "1987 Plan") provides for the granting of 4,000,000 shares of common stock. At March 31, 1992, options for 3,400,256 shares are outstanding at prices ranging from $.28125 to $4.83, and of that amount, options for 3,039,756 are currently exercisable. In addition, nonstatutory stock options for 1,779,501 shares at prices ranging from $.50 to $4.91 per share are outstanding, and of that amount, options for 952,834 shares are currently exercisable.

At March 31, 1992, the Company has 10,166,343 shares of its common stock reserved for warrants that are exercisable at various times through 1997 at prices ranging from $.20 to $1.

4. CAPITAL STOCK

The changes in Stockholders' Equity during the nine months ended March 31, 1992 were as follows:

	Balance at December 31, 1991	Exercise of Warrants and Options	Settlement of Obligations	Net (Loss) for the Period	Foreign Currency Translation Adjustment	Balance at March 31, 1992
Common Stock						
Shares	57,684,132	608,250	198,060			58,490,442
Amount	$576,841	6,083	1,980			$584,904
Additional Paid-in Capital	$17,918,947	367,835	570,569			$18,847,351
(Deficit)	($14,064,784)			(1,354,903)		($15,419,687)
Foreign Currency Translation Adjustment	($11,027)				28,106	$17,079
Stock Subscription Receivable	($122,472)					($122,472)
Deferred Expenses Paid with Common Stock	($210,734)		($360,331)			($571,065)
Treasury Stock						
Shares	276,065					276,065
Amount	($60,000)					($60,000)

NOISE CANCELLATION TECHNOLOGIES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991

RESULTS OF OPERATIONS

Revenues from product sales and engineering and development income declined in the first quarter of 1992 by $214,000 when compared with the same quarter last year, reflecting the continuing effect of the weakened economy in delaying the closing of agreements for follow-on work or for feasibility prototypes for new applications. The engineering revenues were principally attributable to the Company's contractual relationships with Walker, Electrolux and an international manufacturing company of recreational products which resulted in an increase of $143,000 in engineering revenues from these sources over the fourth quarter of 1991. As a result of the delays in closing agreements, the Company did not receive any license fees in the first quarter of 1992 comparable to that recognized in 1991 from the Foster joint venture.

Selling, general and administrative expenses in the first quarter were $237,000 higher than in the same quarter last year, principally as a result of increases in personnel and travel costs attributable to the marketing efforts to obtain and support strategic alliances such as Detroit Diesel, Cooper Industries and Foster Electric.

Research and development expenses were up $407,000 in the first quarter over the comparable period a year ago reflecting the Company's need to increase its engineering capabilities by assimilating additional engineering personnel to finalize and document the engineering specifications that support our product production programs. We have also continued the emphasis on expanding our portfolio of intellectual property which resulted in the issue of three significant patents in 1992.

Interest income was greater in 1992 than in the comparable period of 1991 because of the increased level of cash resources available for investment in 1992.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintained positive working capital during the first quarter of 1992. The effect of the first quarter's loss on working capital was mitigated by funds received from the exercise of warrants and options - $364,000 and the issuance of common stock in settlement of obligations which had the effect of reducing the Company's cash flow requirements by $285,000. The Company anticipates receiving $1.2 million over the remainder of 1992 from warrants expiring this year which together with anticipated revenues should be sufficient to cover the Company's operating requirements for 1992.

The Company continues to focus on its business strategy of commercializing its technology through the sale of products as reflected by the sales agreement signed in March with

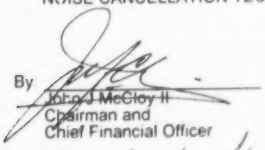
Siemens Medical Systems, Inc. for the delivery of $3 million of MRI products over a two-year period. We have also continued to develop and implement strategic alliances, commencing the operations of the joint venture formed in December 1991 with S.A. Andre Boet to manufacture and market active industrial silencers for the European marketplace. In addition, the Company signed an agreement to establish a joint venture with Philips Consumer Electronics in The Netherlands to develop and supply active noise and vibration cancellation systems, which parallels the supply joint venture established in Japan with Foster Electric Ltd. in 1991. These moves, together with the worldwide sales effort for industrial silencers initiated by the Gardner-Denver Industrial Machinery Division of Cooper Industries, have established the base for moving forward with our plans to transform the Company's revenue mix by shifting the emphasis from customer-funded research and development revenue to revenue from the sale of active noise and vibration cancellation products.

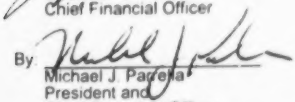
Noise Cancellation Technologies, Inc

SIGNATURE

Pursuant to the requirement of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

NOISE CANCELLATION TECHNOLOGIES, INC

By 
Robert J McCloy II
Chairman and
Chief Financial Officer

By 
Michael J. Pacella
President and
Chief Operating Officer

Dated May19, 1992

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

S 92-2256

(Mark One)

(x) Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarter ended March 31, 1992.

or

( ) Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition period from _____ to _____.

Commission file number 0-1388

PROCESSED BY
MAY 18

WATERS INSTRUMENTS, INC.

A Minnesota Corporation IRS Employer I 41-08

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

2411 Seventh Street NW
Rochester, Minnesota 55901

(507) 288-7777

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

The number of shares of the registrant's common stock issued and outstanding on April 30, 1992 was 1,454,271 shares.

There are eight (8) pages filed on this report.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

WATERS INSTRUMENTS, INC.

Balance Sheet

	March 31, 1992 (Unaudited)	June 30, 1991 (Audited)	March 31, 1991 (Unaudited)
Current Assets			
Cash & Cash Equivalents	$600,000	$1,877,000	$1,784,000
Net Trade Receivables	1,400,000	1,268,000	1,167,000
Refundable Income Taxes	125,000	146,000	219,000
Inventories	2,002,000	1,221,000	1,430,000
Prepaid Exp. & Deferred Items	300,000	270,000	273,000
Total Current Assets	4,427,000	4,782,000	4,873,000
Fixed Assets			
Property, Plant & Equipment	3,501,000	3,300,000	2,738,000
Less Accumulated Depreciation	(1,780,000)	(1,625,000)	(1,600,000)
Net Fixed Assets	1,721,000	1,675,000	1,138,000
Other Assets	219,000	267,000	210,000
TOTAL ASSETS	$6,367,000	$6,724,000	$6,221,000
Current Liabilities			
Current Maturities of Long-term Debt	$ 69,000	$ 65,000	$ 8,000
Accounts Payable	821,000	1,018,000	458,000
Accrued Salaries	90,000	127,000	55,000
Accrued Vacation Pay	117,000	166,000	169,000
Product Warranty Reserve	175,000	250,000	253,000
Accrued Other Expenses	218,000	292,000	487,000
Total Current Liabilities	1,490,000	1,918,000	1,430,000
Long-term Debt, Less Current Maturities	270,000	320,000	24,000
Deferred Income Taxes	34,000	34,000	17,000
TOTAL LIABILITIES	1,794,000	2,272,000	1,471,000
Stockholders' Equity			
Common Stock	145,000	145,000	145,000
Additional Paid-in Capital	1,227,000	1,227,000	1,227,000
Retained Earnings	3,201,000	3,080,000	3,378,000
TOTAL STOCKHOLDERS' EQUITY	4,573,000	4,452,000	4,750,000
TOTAL LIABILITIES & EQUITY	$6,367,000	$6,724,000	$6,221,000

See Note to Financial Statements

PART I
FINANCIAL INFORMATION

tem 1. Financial Statements (continued)

WATERS INSTRUMENTS, INC.

Statement of Operations

(Unaudited)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	1992	1991	1992	1991
ET SALES	$2,559,000	$2,447,000	$7,671,000	$7,562,000
OST OF GOODS SOLD	1,651,000	1,768,000	4,903,000	5,534,000
GROSS PROFIT	908,000	679,000	2,768,000	2,028,000
PERATING EXPENSES				
Administrative	287,000	471,000	918,000	1,061,000
Selling	478,000	271,000	1,375,000	849,000
Research and Development	103,000	142,000	292,000	439,000
Transition Cost	0	135,000	0	602,000
Total Operating Expenses	868,000	1,019,000	2,585,000	2,951,000
PERATING INCOME (LOSS)	40,000	(340,000)	183,000	(923,000)
THER INCOME (EXPENSE)				
Net Interest Income	2,000	25,000	30,000	85,000
Net Other Income (Expense)	1,000	(1,000)	(33,000)	(15,000)
NCOME (LOSS) BEFORE INCOME TAX	43,000	(316,000)	180,000	(853,000)
NCOME TAX PROVISION (CREDIT)	14,000	126,000	59,000	302,000
ET INCOME (LOSS)	$29,000	($190,000)	$121,000	($551,000)
ARNINGS (LOSS) PER COMMON SHARE	$0.02	($0.13)	$0.08	($0.38)
eighted Average Number of Shares Outstanding	1,454,271	1,454,271	1,454,271	1,449,427

See Note to Financial Statements

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements (continued)

WATERS INSTRUMENTS, INC.

Statement of Cash Flows

(Unaudited)

	For the Nine Months Ended March 31,	
	1992	1991
CASH FLOWS FROM OPERATIONS		
Cash received from customers	$7,549,000	$7,852,000
Interest received	50,000	99,000
Cash provided from operations	7,599,000	7,951,000
Cash paid to suppliers and employees	8,614,000	7,181,000
Cash paid for transition costs	14,000	537,000
Interest and Taxes paid (refunded)	20,000	14,000
Cash disbursed from operations	8,648,000	7,732,000
Net cash from (used for) operations	(1,049,000)	219,000
CASH FLOWS FROM INVESTING		
Net aquisition of fixed assets	(201,000)	(182,000)
(Increase) decrease in other assets	19,000	
Net cash from (used for) investing	(182,000)	(182,000)
CASH FLOWS FROM FINANCING		
Reduction of Long-Term Debt	(46,000)	(257,000)
Sale of Common Stock		20,000
Net cash used for financing	(46,000)	(237,000)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(1,277,000)	(200,000)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	1,877,000	1,984,000
CASH AND CASH EQUIVALENTS - END OF PERIOD	$600,000	$1,784,000

(Continued)

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements (continued)

WATERS INSTRUMENTS, INC.

Statement of Cash Flows (Continued)

(Unaudited)

	For the Nine Months Ended March 31,	
	1992	1991
Reconciliation of net income (loss) to net cash from (used for) operations:		
Net income (loss)	121	(551)
Depreciation and amortization	168	117
Provision for losses on accounts receivable	(10)	(8)
Changes in assets and liabilities:		
Accounts receivable	(122)	290
Inventories	(781)	509
Refundable income taxes	21	(183)
Prepaid expenses	(30)	101
Other assets	16	27
Accounts payable and accrued expenses	(432)	20
Deferred income taxes		(103)
Net cash from (used for) operations	(1,049)	219

See Note to Financial Statements

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements (continued)

WATERS INSTRUMENTS, INC.

Note to Financial Statements

The financial information included herein is unaudited. In addition the financial information does not include all disclosures required under generally accepted accounting principles because disclosures included in the Company's annual report have been omitted; however, such financial information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary to a fair statement of the results of the interim periods.

The marketable securities included as cash equivalents on the balance sheet and cash flow statements meet the definition of cash equivalents set forth in paragraph 8 and 9 of SFAS95.

Certain prior year balances have been reclassified to agree with the current year presentation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net sales for the quarter ended March 31, 1992 were up 4.6% from the comparable period of the prior year. Year-to-date net sales for the nine month period ended March 31, 1992 were up 1.4% from the comparable period of the prior year. Third quarter and year-to-date net sales of the Company's branded products in the Farm and Medical areas continue to outperform the prior year by 14.0% and 13.1%, respectively. The sales increases in the Company's branded products are a direct result of a marketing program that was initiated in May of 1991. The Company's unbranded Electrical Products group continues the steep decline as reported in the first two quarters. Sales of the Electrical Products group decreased 26.8% and 33.6% when compared to the prior year for the quarter and nine months ended March 31, 1992, respectively.

The gross profit percentage for the quarter and nine months ended March 31, 1992 was 35.5% and 36.1%, respectively. The prior year gross profit percentages for the quarter and nine month period were 27.7% and 26.8%, respectively. The gross profit percentage increase is primarily attributed to the above mentioned sales increases of the more profitable branded products and to the elimination of inventory write-offs and increases in product warranty reserves that occurred during both the third quarter and nine month period of the prior year.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Operating expenses for the third quarter totalled $868,000, down from the prior year amount of $1,019,000. Year-to-date operating expenses for the nine months ended March 31, 1992 totalled $2,585,000, down 12.4% from the prior year amount of $2,951,000. The operating expense reduction is primarily related to the elimination of the transition cost that occurred in the prior year, which was partially offset by increased selling expenses associated with a marketing program that was initiated in May of 1991.

Net income for the quarter and nine month period ended March 31, 1992 was $29,000 and $121,000, respectively. The improvement in net income performance was a result of the elimination of the inventory write-offs, product warranty reserve increases, and transition costs that occurred in the prior year.

Liquidity and Capital Requirements

The Company's working capital position at March 31, 1992 remains strong at $2,937,000, up 2.5% from the $2,864,000 amount at June 30, 1991. The increased inventory level in the Farm Products area is seasonal in nature and is in anticipation of strong fourth quarter sales. On April 23, 1992, the Company's Board of Directors approved its first quarterly cash dividend payment, payable May 25, 1992, to shareholders of record on May 11, 1992. The Company anticipates paying a cash dividend on a quarterly basis.

The Company believes that existing liquid assets and cash from operations will be sufficient to satisfy the Company's foreseeable working capital and capital expenditure requirements.

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(A) Exhibits - None

(B) No report on Form 8-K has been filed during the last quarter of the period covered by this report.

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WATERS INSTRUMENTS, INC.

By _____
Robert J. Fitel, President & Chief Executive Officer

By _____
Darryl H. Wicklund
Vice President of Finance & Chief Financial Officer

May 14, 1992